

Your FINANCIAL HEALTH

A digest of money management tactics for the family physician

Fall 2009

TEN WAYS TO TEACH CHILDREN FINANCIAL RESPONSIBILITY

Most children don't understand money -- including how it works or how to use it effectively. That's why it is not uncommon for a teenager to slave away at a minimum-wage job all week, blow the entire paycheck at the mall in 20 minutes on a to-die-for outfit or e-toy, then complain about being broke. Or worse, the money simply gets lost. (Some parents could make a respectable living from the cash that gets laundered with their children's clothes.)

It's up to us to teach them. Here are 10 suggestions to help children learn financial responsibility:

- 1. Talk about money.** While your finances are your personal business, try to include your children in budget and other household money discussions. Some families hold "budget summits" periodically to discuss family finances. (This practice is sometimes continued long after the children are grown. Each year, around the holidays or at a family reunion, time is set aside to discuss important family matters, including finances.)
 - 2. Provide allowances.** This is the best way to teach money management skills. Base the amount on your children's ages, maturity and the cost of living in your state. Be clear about what the allowance covers. Example: Tommy receives \$20 a week while Bob gets \$45. This may sound unfair; however, Bob must buy his own school lunches and clothes, while Tommy's parents pay for these items separately. For younger children, pay allowances weekly. At some point, however, many parents begin paying once a month.
- How much should you give?** There are a number of variables – from age to area in the country, etc. Believe it or not, the average, regardless of age, is just \$5, according to [Kids Money](#), though the survey quoted is about ten years old (still the most recent available).
- Want a better guideline? A 2007 MSN article, [Should Your Kids Get an Allowance](#), suggests a reasonable guideline is one dollar for each year (as in: \$6 for your six-year-old).
- 3. Give credit where credit is due.** A credit card can be a dangerous weapon in the hands of a teenager. Some do not understand the connection between charging items and later paying the bill. The best way to teach the use of credit is to strictly control the use of your cards by your children and making sure they see all bills that come in. If your teen carries a card for emergency use only, clearly define the term "emergency". Another option is to use cards that allow you to post a certain number of dollars on the card, such as \$500. That will help you see how well your child manages money, without letting him or her run up thousands of dollars of bills before you have time to cancel the card.
- Once your teens have wages of their own and/or goes away to college, let them have a credit card in their own name. However, have them agree that you will have online access to the account. This lets them know that you'll review all transactions and see whether the monthly balance is paid. This 'trust but verify' model allows teens to establish a credit history in their own name – a valuable 'adult' asset.
- 4. Put it in writing** if you lend your children money. Then make sure you stick to the agreement. Advancing your daughter \$200 for an electronic device, then forgiving the debt the next week sends the wrong message, especially if it represents a pattern.
 - 5. Start talking about college while your children are still in high school.** Discuss who will pay what amounts, and who will be responsible for doing the financial aid legwork. Some parents agree to contribute a set amount each year (such as \$5,000 or the equivalent of in-state tuition at a public university). The child is then expected to make up any difference.



Give Credit Where Credit Is Due

- 6. Monitor part-time work,** and don't automatically reduce allowances when your children take jobs. This can be interpreted as punishing initiative.
- 7. Encourage regular saving.** Some parents insist that their children put a percentage of everything they earn or receive as a gift into savings. Many provide matching funds, adding a dollar for every dollar the child puts aside. Withdrawals are permitted to purchase saved-for items and, once in a while, just for a treat. As part of this, teach them how to accumulate money for big expenses. If junior wants that \$10 baseball card, you could give him the money, lend him the money or show him how he can pay for it himself in five weeks by saving two dollars out of his allowance.
- 8. Teach them about the costs of things in their world.** As a parent, you can rant and rave until blue in the face about the electric bill ("Why is every light on in the house?") or pay-per-view cable/satellite bill ("No, you can't watch Blood 'n Mud III!") Or, you can review the bills together. Some families regularly post them on the bulletin board or refrigerator, a practice that can lead to some lively discussions. Another idea is to relate the cost of things to your child's income. Example: If your daughter earns \$8.50 per hour, ask her to decide for herself if that \$85 sweater is really worth ten hours of work?

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If Today's Economy Has Put a Crimp in Your Finances

MAKE SURE YOUR DISABILITY COVERAGE MEETS YOUR EXPECTATIONS

Don't have disability income insurance? Get some. (For the "Why" details, keep reading.)

Do have DI coverage? Make sure it meets your needs. (For the "How" details, keep reading.)

These days, with the economy still in an unraveling knot, disability coverage is more important than ever before. That's because ... well, money is tight. For many Americans job security is a thing of the past (yes, even for doctors) and most of us have seen our fallback assets take a tumble over the last year.

One problem: Our wealth is shrinking.

If you're feeling poorer than you were last year, you're not alone. U.S. Households lost more than \$5 trillion (that's \$5,000,000,000,000) in value by the end of 2008, according to the [Federal Reserve Bank](#), and those numbers have shown little signs of recovering in 2009.

Meanwhile, according to an April 2009 report by the Center for American Progress, "[Household Wealth in Freefall](#)," household assets in our country dropped sharply after reaching an \$81 trillion peak in June 2007. By the end of December 2008—the last full quarter for which data is available and one full year into the current recession—about \$15 trillion in private family assets and wealth had evaporated. This is the sharpest relative wealth decline in more than 50 years. Between June 2007 and December 2008, inflation-adjusted personal wealth fell by 22.8%.

Yes, some of that is housing values.

Home values have plunged, reports the [National Association of Realtors](#), with existing home sale prices bottoming out at \$164,800 nationally in January 2009 (from a high of \$221,900 in 2006) and rebounding (ah, finally, some good news) to \$173,000 in May 2009. Still, that's quite a slide; especially when up until 2007 home values typically could be counted on to keep on growing and growing.

That decline has impacted our home equity. Specifically, reported [CNN Money](#) in March of this year, homeowner equity had decreased to 43% of household real estate by the end of 2008. That compared to 48.8% at the end of 2007 and 58.5% in 2005.

In short: The vast majority of Americans have smaller "cash cushions" to back-stop their savings than ever before, which means less to carry them if they run into a personal financial crisis.

Another big problem: A disability can become the unexpected surprise that blindsides an otherwise functioning financial game plan. According to the [Council for Disability Awareness](#), as many as 50% of home foreclosures that occurred prior to our current recession were disability related. And not only do many people not have personal disability insurance coverage, but the average Social Security [disability benefit](#) (May 2009) comes to a paltry \$1,062 a month.

Yet another problem: Disabled without a paycheck places further pressure on already recession-depleted assets. Once the physical disability ends, the asset-rebuilding period begins all over again... like the salad and popcorn days of our youth, but with more family responsibilities to juggle.

Plus, the risk of disability is very real.

According to *Worksite Marketing Magazine* (July 2009), three out of ten workers entering the workforce today will suffer a long-term disability at some time during their working careers. Plus, one in five will remain disabled from an accident or illness and be unable to work for a year or longer. In other words, the danger is real. Very real.

The bottom line: In today's economy, a disability – which could have been financially painful in the past – can be financially crippling these days... especially for those of us with mortgages to pay and children to raise. So, besides watching how we spend and save our money, it is now more important than ever before to establish a safety net of quality disability insurance to break the fall if we become ill or injured.



If you do not have disability income coverage and become disabled, here is a fairly typical sequence of events:

1. You anticipate that the disability will be short-term, so you focus on recovering and returning to work.
2. You contact Social Security. The problem is that acceptance is low and benefits are even lower.
3. If it becomes apparent that you will be laid up for some time, you do an inventory of assets, starting with your savings and assets that you can easily convert to cash. One problem is that, because of our current recession, many of those assets are already seriously eroded.
4. Your spouse and children voluntarily make significant lifestyle cutbacks. Your spouse willingly attempts to reenter the job market even though the national 9% unemployment rate means job prospects are slim.
5. Then you look to the equity in your home. In the past, home equity was always a safe-haven backup in times of emergency. Unfortunately, today many homeowners find their home equity is reduced. Others are "upside down" on their mortgages (owing more than their homes are worth).
6. Then, if the disability continues, you look at divesting other assets, (possibly selling your home and moving to smaller housing). But today, the housing market is still stuck on stall. Little is selling; much of what does sell goes at bargain basement prices.
7. Perhaps you have family and friends willing to lend you money, but you prefer to approach your long-time banker. Unfortunately, banks today have little money to lend and are unlikely to lend it to someone with depleted assets and diminished capacity to return to work.

(Continued)

One simple way to avoid the preceding scenario: **Disability Income Insurance**. If you purchase your coverage while you are working and healthy, a quality DI plan can pay you benefits – potentially as much as 60% of your current income – for as long as you are disabled.



Paycheck Protection

Here are a few key areas to review.

If you do have DI coverage – perhaps through work – make sure you know the details. Features and benefits can vary dramatically from policy to policy. Here are a few key areas to review:

- **Definition of disability:** Consider a policy that covers “own occupation” for the full term of your disability (avoid “own occ” for 5 years & “any occ” thereafter).
- **Waiting Period:** Do you have to be totally disabled during your entire waiting period and for a period thereafter to collect partial disability benefits?
- **Renewability:** A “guaranteed renewable” clause assures that you can continue your coverage up to a specified age as long as all required premiums are paid. Also, the carrier cannot unilaterally change your premium.
- **Inflation Protection:** Consider coverage that includes cost of living adjustments.
- **Benefit Increase Options:** A quality plan includes provisions for increasing coverage on a guarantee issue basis (no medical questions or exam).

If Your Employer Provides DI Coverage...

Be aware of the tax liability aspects of employer-owned and individually-owned disability insurance. If the premiums are paid by your employer (or practice) and taken as a tax-deductible business expense, then proceeds payable to you – the disabled insured – are taxable to you as ordinary income. The income tax liability on an employer-paid policy can significantly reduce the amount of spendable dollars available to you while you're disabled. On the other hand, when you pay the premiums yourself, policy proceeds are received tax free.

Don't get caught in the tax-gap. Create a win-win scenario. Talk to your employer about increasing your wages enough to cover the premiums on a disability policy of *your* choice. Then you pay the premiums; your employer takes the tax deduction on your nominally elevated salary; and you gain tax-free policy proceeds when you become disabled. This could add up to hundreds of thousands of dollars (i.e., \$10,000 per month of total disability benefits paid out over a 5-year period could produce \$600,000 of tax-free income).

If your employer doesn't consent to this procedure, you can compensate for the tax-gap (inherent with all employer-paid disability products) by purchasing supplemental coverage equivalent to 15% of your gross income.

Most of all, if you do have coverage, review it as soon as possible to make sure it meets your needs and those of your family. If you do not have DI coverage, begin the research and add this important protection to your financial safety net. □

The Academy has a Disability Income Insurance Plan designed specifically for family physicians.

Use it as stand-alone coverage or as a supplement to your employer-paid policy.

Cost-effective, especially in times like these.

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Ten Ways to Teach Children Financial Responsibility (Continued from page 1)

9. **Let them share in windfalls.** One family of five likes to take in a movie and a meal every Friday night. Dad explains that if they rent a movie instead for \$2 to watch at home (rather than spend \$35 at the theater, they can save \$32 (even more if they factor in snacks at home vs. at the concession stand). Then each child receives \$5. Try the same thing with utilities. Suggest, for instance, that if the electric bill can be cut by 10% next month, everybody (including Mom and Dad) get to share in the savings.
10. **Help them invest in their futures.** Some parents give their children a fixed sum (such as \$5,000) at a certain age and teach them how to invest the money in stocks, mutual funds and other assets. This not only helps the children (and very often the parents) learn the fundamentals of investing, but it also provides a common ground for maintaining the parent/child relationship.

The bottom line: Teach by example. Believe it or not, your children do pay attention to what you do, including how *you* manage your money. So, be sure to practice what you preach. □

HOW TO GET MORE UMPH FOR YOUR MONEY

Most of us work hard for our money – putting in 40 hours, 50 hours or even more each week. We should work just as hard when we spend it. Here's how, according to [The Family Finances Conference Center](#):

Things you'll need:

- A spiral notebook
- Common sense
- A desire to take control of your finances and live better on what you earn.

What to do: This list could run to several dozen items. But start with the following:



1. Treat money with respect. Make it your friend and your servant, not your master. You work hard to earn your money. Spend it with care and forethought on the things you truly want... not on everything you see.

2. Clip coupons and look for specials.

Watch your pennies... and watch them grow. The average weekly grocery bill in America comes to between \$175.50 and \$208.60 for a family of four (2007 numbers), according to [U.S. government statistics](#). For the sake of discussion, let's say the average cost comes to \$200 a week. Note: This does not include meals out. If you save 10% of that, or \$20, by looking for specials and switching to store brands, that will add up to \$1,040 a year you get to keep... and spend for other things. So, don't be afraid to use coupons to save money, to ask the price before you buy, to shop around for a better deal, or to haggle for a discount.

3. Stop "leaking" cash at every turn. If you make one unplanned visit to the ATM each week and take out just \$10 more than you had planned, that will add up to \$520 in one year. That's lost money that you probably could have used for a getaway weekend or to pay down some debt, etc.

4. Set up a "spending journal" to track how you use money. Use that notebook to record the purchase of every stick of gum, every time you fill up your tank with gas, pay the mortgage or rent, and drop by a fast-food joint. Do this for one week.

5. Evaluate the value of what you spend each day based on the following, 10-point, personal criteria.

Rating	What It Means
10	An excellent buy. Would do it again.
9	A well-priced necessity.
8	A so-so priced necessity.
7	Money well spent. No regrets.
6	It gave me personal satisfaction. No regrets.
5	I could have skipped it. Still, only some regrets.
4	An over-priced necessity. I should have shopped around.
3	An impulse buy. Some regrets.
2	An impulse buy. What was I thinking?
1	A complete waste of money.

6. Highlight items that you ranked 4 or lower. These are where you are wasting money – totally and completely – leaking cash on things that you neither need nor truly enjoy.

7. Focus on items ranked 7 or higher. These were good deals, in your opinion (and when it comes to spending money, you and only you can decide when and how your money is well spent). Work to make sure that all your expenditures fall into this category in the future.

8. Concentrate on boosting your scores, as you stop spending money on things that give you little or no value in return. Pretty much immediately, you will find that you will have more cash in your pocket, perhaps as much as \$25 to \$50 more each week for things you truly want and truly need. That will add up to between \$1,300 and \$2,600 in "found" money over the course of a year.

The bottom line: Most of all, just a few small changes in how you spend money can make a big difference in your lifestyle. Why not start today? ☐

FINANCIAL FOOTNOTES

Want to reduce your real estate taxes? Take advantage of the declines in real estate values. Request a property assessment review from your municipality or county. With property values declining in many areas of the country, you may be able to cut your tax bill significantly.

* * *

What about bankruptcy? In a word... don't. There may be times when declaring bankruptcy is a good decision. However, in the vast majority of circumstances, bankruptcy is a sign that people have been living way beyond their means, got caught, and have learned nothing. Plus, even with bankruptcy, you cannot walk away from student loans, tax liens or back alimony.

* * *

Do not assume online websites are secure. Especially with small companies that have created their own click-to-buy pages, many are high security risks, says Michael Pulvermacher, Founder and President of Wisconsin-based [eBizResults](http://eBizResults.com). Rule of thumb: When in doubt, assume the site is not secure.



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